

HOUSE FINANCE COMMITTEE

May 5, 2021

1:33 p.m.

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CALL TO ORDER

Co-Chair Merrick called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Kelly Merrick, Co-Chair  
Representative Dan Ortiz, Vice-Chair  
Representative Ben Carpenter  
Representative Bryce Edgmon  
Representative DeLena Johnson  
Representative Andy Josephson  
Representative Bart LeBon  
Representative Steve Thompson  
Representative Adam Wool

MEMBERS ABSENT

Representative Sara Rasmussen

ALSO PRESENT

Rob Carpenter, Deputy Commissioner, Department of Transportation and Public Facilities; Dom Pannone, Administrative Services Director, Department of Transportation and Public Facilities, Office of Management and Budget, Office of the Governor.

PRESENT VIA TELECONFERENCE

James Marks, Program Development, Department of Transportation and Public Facilities; John Binder, Deputy Commissioner, Department of Transportation and Public Facilities; David Kershner, Principal and Consulting Actuary, Buck Global.

SUMMARY

HB 55 PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS

HB 55 was HEARD and HELD in committee for further consideration.

HB 70        APPROP: CAP; REAPPROP; SUPP; AMEND

HB 70 was HEARD and HELD in committee for further consideration.

Co-Chair Merrick reviewed the meeting agenda.

#hb70

HOUSE BILL NO. 70

"An Act making appropriations, including capital appropriations, reappropriations, and other appropriations; making supplemental appropriations; making appropriations to capitalize funds; and providing for an effective date."

1:34:11 PM

ROB CARPENTER, DEPUTY COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, introduced a PowerPoint presentation titled "Alaska Department of Transportation and Public Facilities: House Finance Committee Capital Program and FY2022 Request Overview," dated May 5, 2021 (copy on file). He addressed a brief presentation outline on slide 2.

Mr. Carpenter moved to slide 3 and reviewed the Department of Transportation and Public Facilities (DOT) capital budget funding summary. He highlighted that there was a total capital request of \$1.12 billion, with approximately \$950 million of federal receipts, \$19 million in Unrestricted General Funds (UGF), \$1 million in Designated General Funds (DGF), and other state funds totaling \$144.7 million. He pointed out the funding sources listed to the left including sources that comprised 'other' funds including highway working capital funds that funded the state equipment fleet, international airport funds, statutory designed program receipts, Alaska Housing Finance Corporation (AHFC) bonds, and a small portion of UGF.

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DOM PANNONE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, addressed state capital appropriations on slide 4. He reviewed programmatic and recurring requests on the left of the slide. Items included mental health coordinated transportation and vehicles, the Alaska Marine Highway System (AMHS) vessel overhaul, the state equipment fleet, federal-aid highway match credits, and federal program match. He elaborated on each of the items. He noted that the AMHS overhaul was a capital investment to keep the ships running and improve short-side infrastructure. He discussed the department's use of the highway equipment working capital fund, through which it paid a rate on depreciating assets and received credits. He discussed the federal highway match credits, through which the department used the authority to request match credits for earnings from a capital project for items such as selling a right-of-way. He would address the federal program match on slide 5. He moved to the right of slide 4 and reviewed single, one-time items including a computerized maintenance management system and weigh station scale repairs. He noted that there was a significant list of needs to extend the life of several weigh stations.

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Vice-Chair Ortiz looked at the programmatic/recurring annual requests on slide 4. He asked if the figures were constant or changed annually.

Mr. Pannone answered that the figures varied occasionally. He used the example of the current year's request of \$15 million, with prior year's requests of \$18.5 million and \$14.9 million. He continued that the state equipment fleet had been steady, with the current year's appropriation at \$15 million, and an increase of \$7 million proposed for FY 22 as the replacement list had grown. He stated that the amount varied but hovered around the amounts listed.

Representative LeBon looked at the weigh station scale repairs item on slide 4. He asked about the relationship between weigh station repairs and federal highway dollars.

Mr. Pannone replied that there were requirements for the state to ensure the integrity of its assets, which was the reason that measurement standards and commercial vehicle

compliance was housed in DOT. He continued that there was a specific set of funding that could be in jeopardy if the state wasn't protecting its assets from overweight vehicles or certifying that the roads were used without damage.

Representative LeBon pointed out that the purpose of the weigh stations was not to harass truckers but to maintain and protect roads to qualify for federal highway dollars.

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Representative Thompson believed there were portable, temporary weigh scales around the state to put in areas temporarily. He asked if the portable scales were included in the funding request.

Mr. Pannone answered that the scales were permanent and not temporary. The fixed weigh station scales were in seven locations.

Co-Chair Merrick asked for some examples of what might qualify for the Mental Health Coordinated Transportation Vehicles Grant.

Mr. Pannone replied thought there was a community transportation transit agency in Juneau and knew there was one in Anchorage. He deferred the question to a colleague.

JAMES MARKS, PROGRAM DEVELOPMENT, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), agreed with the remarks by Mr. Pannone. He explained that the Alaska Mental Health Trust Authority (AMHTA) was part of the rural transit agency for granting out for people with disabilities across the state. He would need to follow up with a more comprehensive list.

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Mr. Carpenter addressed federal programs and state match on slide 5. He mentioned the Federal Highway Administration (FHWA) funding, which funded road construction, reconstruction, design and engineering. There was a 10 percent state match for a total of \$71.2 million for surface transportation program. The Airport Capital Improvement Program (ACIP) had \$269 million in federal receipts with a 6.25 percent match of approximately \$14.7 million. The funding was guided by the Airport Capital

Improvement Plan. He mentioned that the state was federally required to provide a document called the Statewide Transportation Improvement Program (STIP), which showed planning for all the state's federal highway construction.

Mr. Marks provided a primer on the STIP on slide 6. The STIP was a four-year plan required by federal regulations that listed out all the federally funded and regionally significant surface transportation projects within the state. The STIP had to be fiscally constrained and was required to be developed with a public process. The STIP was approved by FHWA or the Federal Transit Administration (FTA). He explained that a failure to comply with federal regulations and requirements would jeopardize federal funding for transportation infrastructure in Alaska.

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Mr. Marks advanced to slide 7 and reviewed a handful of illustrations showing the STIP process. He read from prepared remarks. He highlighted a box entitled 'Needs Sources' that showed how project needs were identified and where the needs came from, including sources such as performance data, condition data, local needs, and military and defense needs. He spoke to the yellow box entitled 'Needs Evaluation and Management,' which showed a process flow chart. The department utilized a needs database that was routinely evaluated and was intended to be a comprehensive list notwithstanding funding availability.

Mr. Marks continued to speak to slide 7. The red box showed a flow chart depicting the process of the call for projects, which was fed by the needs list and happened periodically every one to two years. When the need for more projects was identified, project scoring and public comment was engaged. He discussed the public comment process. He discussed the project selection process by which other regional entities and partners were solicited for input. Project packages were formed and evaluated. He cited that the Project Evaluation Board (PEB) scored, ranked, and prioritized projects. The PEB process was a public meeting open to participation from the public, and the department hoped to host future events virtually. The PEB process submitted scoring to the commissioner's office. He noted that the icon depicting little yellow people indicated times at which the department actively engaged with the public for input on the STIP.

Mr. Marks addressed the STIP Cycle illustrated by the flow chart in the blue box. The STIP cycle was a four-year program that was updated every two years. He discussed the activities of the department including establishing parameters, soliciting regional input, and balanced the projects' fiscal considerations before putting the STIP out for public notice. The process was federally required, highly public, and usually took about 45 days. Public notice comments were directed to those close to the project. After public notice, the department engaged in getting the approval of the FHWA and the FTA, after which the department would publish its fully approved and executed STIP.

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Mr. Marks continued reading from a prepared statement related to the STIP process. He reminded that the blue box showed a single STIP cycle that typically took 2 years. He noted that sometimes updates were needed due to contingencies. He discussed changes to the STIP in two categories: minor changes that could be an administrative modification, and larger changes including adding, deleting, or changing the scope of work required a STIP amendment that required the full STIP process including federal approval. Developing a STIP could take up to two years and amending a STIP could take up to 220 days.

Co-Chair Merrick noted that Representative Carpenter had joined the meeting.

Vice-Chair Ortiz looked at needs' sources on the upper left of the slide and asked for a brief description of condition and performance data.

Mr. Marks replied explained that the department monitored and measured all its condition and performance of facilities and assets, which was required federally. Some of the performance measures could include monitoring vehicle miles travelled or data on average daily traffic. Condition data could include an actual condition of an asset such as rutting or cracking. The data were published on the federal score card not only the asset, but any correlated assets.

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Vice-Chair Ortiz looked at the STIP cycle on slide 7 and observed that it required commissioner approval. He asked if the commissioner could modify the STIP as much as desired after the entire process.

Mr. Marks replied in the negative. He clarified that in practice the commissioner would approve what had already been approved and public noticed. Any changes after federal approval would require going back to the public.

Vice-Chair Ortiz asked what the arrow showing administrative modification meant (shown to the left of the commissioner's approval box under the STIP cycle).

Mr. Marks answered that administrative modifications were changes that small in nature, such as a shifting a project schedule or a change order. Additions or changes to projects or phases would have to go through an amendment and the full public involvement process.

Vice-Chair Ortiz asked if it was common for a project to stay on the STIP for longer than four years. He asked if it was not uncommon for projects to remain on the STIP for six to eight years.

Mr. Marks answered in the affirmative. He explained that project delivery ranged from three to seven (or more) years. The longer view items remained on the STIP.

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Representative LeBon referenced an intersection in Fairbanks that connected his district with Representative Thompson's district. He believed there needed an overpass for safety and efficiency reasons. He asked if safety and efficiency factored into the department's decisions. He thought the intersection being proposed was unique and cheaper than other designs. He thought traffic was increasing in the area.

Mr. Carpenter asked Mr. Marks to talk about how projects were scored.

Mr. Marks asked for clarification.

Representative LeBon was not sure whether his question about a specific project was fair. He was concerned about an intersection in Fairbanks and thought an overpass would be prudent for safety.

Mr. Marks responded that there were a number of criteria including safety, project cost, economic benefit as well as other factors. He did not know how the particular project was scored and he could follow up with information.

Representative LeBon referenced the needs sources and asked about military and defense needs. He noted that the intersection he mentioned was at the entrance to Fort Wainwright, and reiterated his expectation of increased traffic in the area.

Co-Chair Merrick asked if it would be fair to say that legislators had no say in which projects were on the STIP and the order in which the projects were listed.

Mr. Marks did not believe it was necessarily true to say legislators had no say in which projects were on the STIP. He explained that it was a public process, and the department was engaged with all parties including the legislature. He noted that there were staff dedicated to working with the legislature, and the department actively solicited input. He shared that he and Mr. Carpenter had discussed ways to improve the collaboration.

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Mr. Carpenter emphasized the public portion of the process. He referenced the layout showing a group of people on slide 7 reflecting public participation and solicitation of comments.

Co-Chair Merrick was trying to illustrate that legislators did not create the list and there was a public process.

Representative Wool assumed that not every DOT project was on the STIP.

Mr. Carpenter clarified that virtually all of the DOT projects were included on the STIP. He noted that almost all of the department's capital program ran through the federal program. He cited that every phase of projects from design to construction ran through the STIP.



Mr. Pannone elaborated that some small projects could be paid for out of DOT's maintenance and operating budget. He reiterated that federal dollars, which was almost all of the department's surface transportation program, came from the STIP.

Mr. Marks added that there were a number of projects and programs in the STIP. He used the example of the statewide regional maintenance project was comprised of a whole host of smaller projects during the year.

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Representative Wool referenced public input in the STIP process. He acknowledged that the department took public input into account. He referenced a roundabout project that had been done near Chena Hot Springs that had received public opposition but had been constructed anyway. He noted that a previous legislator had de-funded the item in the budget. He thought the only supporters were from DOT. He wondered how effective public input was when there was a divergence of opinion.

Mr. Carpenter appreciated Representative Wool's points. He noted that decisions often came down to safety, which could outweigh public input. He cited that the department encouraged public input and often changed or amended routes. He offered to provide more detail on the roundabouts.

Representative Wool asked for detail on socioeconomic needs included in the STIP needs' sources box on slide 7.

Mr. Marks answered that the items were identified internally or through collaboration with local official partners which identified projects of economic importance or things that might boost the economy such as improving congestion in particular freight corridors.

Representative Wool recalled a proposition for a road improvement in Fairbanks which had caused a great deal of uproar, and he believed the department had listened to the public input.

Co-Chair Merrick considered ongoing programs in the STIP. She asked if the Glenn Highway fell into the category.

Mr. Marks answered in the negative. He explained that the Glenn Highway and other large highways would be distinct projects in the STIP in which work was done on one chunk at a time.

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Mr. Marks moved to slide 8 titled "STIP: Federal Limitation Over Time." He reviewed the slide with prepared remarks. He noted that federal funding was either portioned via a formula or allocated to the department. He continued that FHWA placed a limitation on programming. He noted that the department was currently in federal FY 21, so the numbers could change before the year was complete. He pointed out that the projections for FY 21 appeared larger, chiefly due to the off-funding signified by the grey bars on the chart, and represented preparation of Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) funding that could be available for the capital program.

Mr. Marks turned to slide 9 titled "STIP: Federal Obligations by Year." He explained that an obligation occurred when the department executed a federal aid agreement with the FHWA for a specific phase of a project in the STIP. He pointed out the bars representing different regions and noted that the bar graph did not evenly line up with the graph on the previous slide, because of two factors - the lifespan of funds, and project delivery life cycle. The life cycle could take from three to seven years to design and construct the project. He pointed out the FY 13 through FY 15 showed higher amounts due to projects developed under American Recovery and Reinvestment Act (ARRA) coming into the construction phase of work.

Mr. Marks pointed out that AMHS was represented by the yellow bar and the distribution might appear disproportionately low, due to confounders in the data. He discussed account variation that allowed for flexibility in funds management. He cited accounting conversions in certain years, as well as a significant overlap in regional efforts that could also confound the data. He cited \$90 million in funding obligated the previous year for the Ketchikan Gateway Borough under the south coast region. He noted that a large portion of total AMHS funding was found in the operating budget and what was seen on the graph was only federal capital obligations. Obligations were

currently underway for the year, and the graph broke out CRRSAA funds.

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Representative LeBon looked at the colored bars showing two shades of blue for northern areas and statewide areas. He wondered if DOT viewed the Dalton Highway as a statewide highway or a northern region highway.

Mr. Marks replied that the Dalton Highway fell under northern region projects.

Representative LeBon suggested that the Dalton Highway benefitted the entire state, and the northern region should not be solely responsible for funding the project.

Mr. Carpenter agreed with the comment related to the statewide significance of the Dalton Highway. He thought that the Legislative Finance Division considered the impact of projects versus its geographic classifications. He noted the statewide bar covered programs in the STIP that were truly statewide geographical programs.

Representative Wool believed in the geographic distribution of assets. He mentioned the Port of Anchorage, which many people called the Port of Alaska because of the large distribution of goods.

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JOHN BINDER, DEPUTY COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), turned to slide 10 titled "Airport Project Evaluation Board (APEB)." He discussed the ACIP, which mirrored the STIP in many ways. He explained that there were differences in how the Federal Aviation Administration (FAA) handled things compared to the FHWA. The FAA did not require public approval or public notice of the spending plan but engaged with the public during project development. Needs were developed in close involvement with stakeholders, then evaluated by APEB. He mentioned the Statewide Division of Aviation, and the ACIP, which scored projects based on specific criteria. The criteria were related closely with the FAA's nationally required criteria. There were needs varying from the FAA standard in different states. The projects were prioritized on a statewide basis, and then

fit into the FAA's national priority ranking. The ACIP development was a five-year rolling plan that included scored projects from the APEB. The department tried to hold projects harmless once within two years of project construction. The department was able to insert projects in the event of an emergency or natural disaster.

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Mr. Binder addressed slide 11 titled "Airport Improvement Program (AIP) for DOT & PF Airports in FFY 2020." He pondered the question of how funds got to Alaska and informed that Alaska was its own FAA region, which benefitted the state tremendously. The funding amounts were formula-driven with consideration of several factors including numbers of passengers and cargo. There were approximately 25 airports in Alaska that were designated as "primary" based on the number of passengers. The state apportionment was based on the size of land mass and the population. Due to the lack of infrastructure in Alaska, Congress established the Alaska supplemental, which was a special additional federal appropriation for projects selected by the FAA. After nationwide allocation, the FAA had a remaining pot of discretionary funds for projects ranked in priority. In addition, funds unused by other states that were not able to use their entitlement were rolled into the discretionary fund.

Representative Edgmon shared that his district experienced high airport traffic volumes in the summer. He asked how the department estimated airport traffic.

Mr. Binder answered that the FAA based the funds on reported passengers from the prior year. Some airlines were good about reporting the figures to the FAA, while others were not. The numbers were rolled into the formulas for the following year.

Representative Edgmon referenced RAVN Air and thought the FAA should have good numbers. He stated that a small place like Bristol Bay could get upwards of \$100,000 people per year. He thought it would be interesting to get a better sense of the airport reports. He mentioned airport and cargo volume in Bethel and Nome. He asked if it was possible to get the information.

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Mr. Binder answered that the department could pull up the reported data from previous years. The department would work with the air carriers for passenger estimates for the present and future.

Representative Edgmon asked if the information went to the Department of Labor and Workforce Development for statistical purposes, or if the information only went to DOT.

Mr. Binder replied that the number was reported to the United States Department of Transportation's T100 data, which tracked passenger and cargo volumes at airports nationwide.

Co-Chair Merrick looked at cargo entitlements at the top of slide 11. She asked about the landed weight for the Anchorage International Airport.

Mr. Binder would follow up with the information.

Co-Chair Merrick was curious about the number because she believed the Anchorage airport was one of the top cargo airports in the world.

Mr. Binder moved to slide 12 and addressed the Alaska International Airport System (AIAS) capital funding based on FY 20. He noted that AIAS was an enterprise fund system, were self-sustaining (per statute), and did not use any state dollars. He continued that AIAS generated about \$40 million in ACIP funding each year. He pointed out that the amount was a little low in FY 20 due to no large projects at the time. He reiterated that the funds could be rolled over to future years. He pointed out the close to \$40 million in anticipated funds for FY 21, which were broken down into amounts for discretionary funds and entitlements. He noted that the FAA authorization bill, typically passed on a three-year or five-year basis, covered most of the ACIP, but Congress would typically insert aviation funds into other bills, which was called supplemental funding.

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Representative LeBon asked about the formula for dividing money between the Fairbanks International Airport and the Anchorage International Airport. He considered the FY 20

amounts and acknowledged that Anchorage had greater numbers and more activity, but observed that in FY 21 the spread between the airports was huge. He asked if Fairbanks had been overlooked. He did not think it made sense. He did not see any supplemental funds for the Fairbanks airport.

Mr. Binder clarified that the funds went to the owner and operator of the airports, and both Anchorage and Fairbanks international airports were owned by an international airport system. The funds went as a whole to the system, to be allocated each year based on capital needs. He noted that Fairbanks had a large runway rehabilitation project that had recently started, which was reflected by the larger chunk from FY 20. The capital needs on both airports were funded in large part by ACIP dollars, and the rest was funded by the carriers operating in each airport.

Mr. Binder advanced to slide 13 and reviewed the rural system capital funding FFY 2016 through FFY 2020. He commented that FY 20 funds were significantly higher as unused international funds had rolled over to the rural system. In addition, there were approximately 7 local airports in the state that also had a very low capital year. Typically, rural airports had a 6.25 percent match for federal dollars. Due to Coronavirus Aid, Relief, and Economic Security (CARES) Act and American Rescue Plan Act (ARPA) funding for FY 20, there was no required state match for federal funds.

Co-Chair Merrick asked if Mr. Binder had defined what a rural airport was.

Mr. Binder answered that he had not, and stated the term was used freely. He explained that DOT considered the Anchorage and Fairbanks were part of the international system, and the rural airports were everything else. The international system was the owner of the two airports, and DOT owned the rest.

Representative Wool asked if the other municipally owned airports such as Palmer, Wasilla, and Juneau were in a category or if the airports were in their own group.

Mr. Binder answered that most locally sponsored airports compared to rural airports, except Juneau which was close to the size of the Fairbanks airport. He explained that for specific capital projects, the municipally owned airports

worked directly with the FAA. He noted that DOT included the airports in its planning.

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Mr. Binder moved to slide 14, "Major Rural System AIP Construction Projects Expected to be Funded in FFY 2021 & 2022," which gave an example of some of the project construction for the current and following year. He noted that typically FAA dollars were not freed up until late spring or summer which meant most projects went to construction the year following the grant. The FAA broke down projects into four main categories: safety, payment rehab, rural access, and buildings. He offered to follow up after the meeting with greater detail.

Vice-Chair Ortiz asked where the Ketchikan airport fell into the category in relationship to other airports. He thought the airport was managed by the borough but owned by the state.

Mr. Binder answered that the Ketchikan airport was considered one of the rural airports and was owned by the state with an operating agreement in place with the borough. All the revenue generated covered the cost of operations, which usually ended up a little short. A small part of the south coast region's budget was allocated to Ketchikan. He thought that since the FAA broke out the CRRSA and ARPA funds specific to airports, Ketchikan was receiving the full allocation of federal funding through DOT.

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Mr. Carpenter addressed federal program project allocations on slide 15. He noted that the two largest projects were appropriation with no allocations for the surface transportation program and the ACIP covering all the FAA funding. Prior to FY 18, the two major federal programs were broken out into individual project allocations in the capital budget. He addressed the pros and cons of the method. The pros included that the method had provided the legislature with additional clarity and allowed for the Legislative Finance Division House district reporting to give an understanding of the geographic balance and significance of statewide projects. The cons included the

challenge to manage the individual allocations because of project cost increases and slippage.

Representative Wool surmised that prior to FY 18 every project would be listed in an appropriations bill. He saw how the practice could be very political and asked if that had been a challenge for the department.

Mr. Carpenter emphasized that the STIP process guided where the funding went, so for the purpose of the legislature, the individual project allocations were simply a guide as to where the funds went. Other than the public process, there was not really an opportunity to change items.

Representative Wool was not sure the process was a bad thing.

Mr. Carpenter addressed slide 16 titled "Potential Solution":

Working with the other body to address the two primary challenges of:

- Project Cost Increases
- Project Slippage

Solution -Create Additional Allocations:

- Project Contingency
- Project Acceleration

Mr. Carpenter read slide 17, "New Allocations":

Project Contingency Allocation:

- Provides a federal authority "pot" when projects incur cost over-runs.

Project Acceleration Allocation:

- Provides a federal authority "pot" for when projects are delayed
  - Allows for the advancement of a project in the STIP that is ready that may not be listed in the appropriation bill

HB 70 was HEARD and HELD in committee for further consideration.

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AT EASE



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RECONVENED

#hb55

HOUSE BILL NO. 55

"An Act relating to participation of certain peace officers and firefighters in the defined benefit and defined contribution plans of the Public Employees' Retirement System of Alaska; relating to eligibility of peace officers and firefighters for medical, disability, and death benefits; relating to liability of the Public Employees' Retirement System of Alaska; and providing for an effective date."

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DAVID KERSHNER, PRINCIPAL AND CONSULTING ACTUARY, BUCK GLOBAL (via teleconference), shared that the firm was the actuary for the Department of Administration Division of Retirement and Benefits. He continued that Buck Global had completed a cost-benefit analysis for the bill. He asked if he should summarize the key elements of the bill and the costs.

Co-Chair Merrick agreed.

Mr. Kershner explained that the bill would allow active members of the Peace Officers and Firefighters an opportunity to transfer to the Public Employees' Retirement System (PERS) Defined Benefit (DB) Plan which currently only covered employees hired prior to July 2006. The Defined Contribution (DC) Plan covered those hired after 2006. The bill proposed that all future hires would enter the DB plan. There was a separate schedule of benefit provisions that would apply to the members covered by the bill, as well as cost-sharing provisions. He relayed that the Alaska Retirement Management (ARM) Board oversaw the funding of the PERS system, and per statute all employers contributed a fixed 22 percent of pay to the PERS system. A portion went to the DC plan and the remainder of the 22 percent went to the DB plan. The cost sharing would not

change, but under the bill a new separate trust would be established in the PERS system that would cover the benefits provide for the members affected by HB 55. All the assets contributed to the trust would be separately tracked and dedicated for the members.

Mr. Kershner continued to describe the provisions of the bill. He explained that currently PERS employer contribution rate was fixed at 22 percent, and the actuarial contribution was based on ARM board policy. The excess of the contribution rate was the additional state contribution rate. He cited that currently the members covered under HB 55 had just under 10 percent of pay contributed to the DC plan, and the remainder contributed to the DB plan. Under HB 55, there would be 12 percent going to the trust as well as the HRA accounts currently set up, which left 12 percent to go towards the DB plan. The portion of the employee contribution going toward the DB benefit plan for members would decrease from 12.2 percent to 10 percent of pay. The difference would have to be made up per ARM Board policy and was made up by additional state contributions. The fiscal note included the estimated increase for five years starting of about \$5.3 million in FY 23 and \$28.4 million for the five years after.

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Representative Thompson asked what the figure would be with correctional officers included.

Mr. Kershner replied that he was not certain the corrections officers were included in the group of peace officers and firefighters in the bill.

Representative Josephson clarified that corrections officers were covered as part of the group.

Mr. Kershner was happy to provide further details or answer questions.

Representative Josephson asked if the plan would be solvent if Alaska had just become a state and the only DB plan was for peace officers and firefighters.

Mr. Kershner answered in the affirmative. If the plan had just started there would be no assets or liabilities, and

under the funding policy each year a percentage of pay would be contributed that was equivalent to the cost of benefits accruing under the plan. As long as the actuarial calculations projected dozens of years into the future, and if there were related to life expectation, length of employment, and salary amounts. He acknowledged that in any given year the assumptions would not be correct, but they should be reasonably close to actual experience in the long-term. He noted that every year there were deviations from the assumptions, and if assets did not earn as much as expected there were created losses to the plan and the losses had to be funded over a period of time.

Mr. Kershner continued that if the plan started in the present, and all of the experience matched assumptions for the future, accrued benefits would be funded and the state would never have any of the losses. The state would only be funding the benefits accruing annually in the 8 to 9 percent range. He noted that the PERS DB plan was significantly underfunded at present and the cost for the DB plan was a makeup for the current costs in addition to unfunded liabilities accumulated over time. He affirmed that if the plan were to start today, the cost sharing and contribution rates proposed in SB 55 would be enough to cover the cost of the benefits if all future experience matched the assumptions.

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Representative Josephson reiterated that if the plan was starting fresh it would be solvent at inception and without a negative history. He referenced HB 79 from the previous legislature, which was related to the same topic and "virtually identical." He recalled that Mr. Kershner had determined that HB 79 was anticipated to be somewhere above 99 percent anticipated solvent.

Mr. Kershner answered that the HB 55 trust that would cover the liabilities for the members as well as the assets being transferred in, was expected to remain solvent for many years. He addressed the \$5.3 million cost increase for FY 23 that was due to the portion of the 22 percent employer contribution currently going into the DB plan, and noted that more would go to the new trust. The increase was not because the HB 55 trust was not solvent or expected to remain solvent, rather there was a shifting of the 22

percent between the various trusts was giving rise to cost increases.

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Representative LeBon referenced HB 79 from the previous legislature, which was related to the same topic. He recalled that the fiscal note had totaled \$18 million through the five years ending 2027, and he thought the note had jumped up to \$28 million for the same period. He asked about the unfunded liability for the PERS program, and referenced an amendment proposed to transfer about \$1 billion from the Permanent Fund to PERS to close the unfunded liability. He asked what impact the action would have had in the discussion about a DB program as proposed by HB 55.

Mr. Kershner replied that if \$1 billion were transferred into the DB plan, the cost impact of HB 55 would likely be similar to what Buck had determined for the bill because the current additional state contribution would go down. The plan would start from a lower funding point, and the provision of HB 55 would enact the same cost increases through a shifting of contributions. Under HB 55, the state would contribute about \$5.2 million less into the DB plan, and the cost would be independent of the \$1 billion. He contemplated the scenario of putting \$3 billion or \$4 billion into the PERS system, which would likely wipe out the initial state contribution entirely with no increase. He acknowledged that a \$1 billion contribution would help the funding of the DB plan, but it would not eliminate underfunding, and there would still be an additional state contribution of a lower amount.

Mr. Kershner mentioned the analysis of HB 79 and noted that the most recent analysis was in February 2020. The process had started about a year earlier and was based on 2018 data because it had been the most recent available data at the time. The HB 55 analysis was based on 2020 data, and in the two years the payroll for peace officers and firefighters had increased about 11 percent in total for a larger pay base resulting in larger dollar amounts than under HB 79.

[3:17:09 PM](#)

Representative LeBon stated that one of his motivations in the discussion was two-fold. He believed that establishing

a new DB program meant the state needed to consider that the current DB plan was still underfunded. He believed it needed to be fixed. He stated that it would take 18 years to close the current liability. He added that he may have included Teachers' Retirement System (TRS) in the estimate. He asked about fixing the liability and making room in the budget for a new DB plan.

Co-Chair Merrick noted that Mr. Kershner had referenced an 11 percent increase in payroll. She asked if it was because the state had hired more officers or increased pay for existing officers.

Mr. Kershner answered that the increase was a combination of both factors. There were more active members than in 2018, and the recent pay increases had been more than expected.

[3:19:41 PM](#)

Representative Wool referenced Representative Josephson's question about whether the plan from SB 55 would be solvent if it was isolated on its own. He thought Mr. Kershner had given the plan a high score.

Mr. Kershner answered affirmatively.

Representative Wool thought because the state already had an underfunded DB system, it was not possible to keep the two plans separate entities. He asked if it was possible to pay down the old system while maintaining the new system proposed in the bill.

Mr. Kershner replied that based on the way the bill was designed, the HB 55 members would be employees under the PERS system and PERS employers contributed 22 percent of pay, which was allocated to different trusts depending upon the specific yearly calculations. He continued that if the HB 55 plan was established separately from PERS, it could turn out to be more or less expensive. He explained that under HB 55, part of the 10 percent of the payroll for peace officers and firefighters would be deposited into the underfunded DB plan. Currently about 12.2 percent of pay was deposited into the plan. The decrease from 12.2 percent to 10 percent was equivalent to about \$5.2 million, which was reflected in the increase in the fiscal note for FY 23. The amounts would be a shifting of contributions

away from the unfunded liability in the DB plan, and the amount would be made up through the additional state contribution.

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Representative Wool asked about the conversations on solvency and the efficacy of the plans. He recalled that if the market returns dropped, there was a trigger and employees would have to contribute more. He considered the increased retention the groups would likely experience, which was one of the purposes of the bill. He asked if it was included in the analysis.

Mr. Kershner answered that there were two triggers within HB 55 that meant if the HB 55 trust were to fall below a 90 percent funding level, the post-retirement pension adjustment could be limited, or the current 8 percent member contribution could be increased to ten percent. The two provisions had not come into play because the HB 55 trust was not anticipated to fall below 90 percent funded; however, if it did fall below, the two items could be triggered. He asked for a repeat of the rest of the question.

Representative Wool asked if increased retention of members was included in the calculations.

Mr. Kershner answered in the affirmative. The current active members were projected through retirement, all current retired members through the retired years based on life expectancy, and a certain percentage of the members were expected to terminate employment every year. The assumptions depended on age, service, gender, and other factors. The withdrawal assumption rates were higher than the corresponding rates in the DB plan due to the general tendency to have more workforce mobility for those covered by a DC plan compared to a DB plan. The lower turnover assumptions were used for members expected to transfer into the DB plan.

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Representative LeBon looked at the fiscal note (OMB Component Number 2866) showing \$5.3 million in FY 23 with upward growth to \$5.6 million, and \$6.1 million in the subsequent years. He was not surprised there was upward

growth in funding. He noted it dropped to \$5.7 million in FY 26 and FY 27 and thought the funding impact to the proposed program had many unknowns. He felt there was a sense of urgency to deal with the unfunded liability prior to opening another DB program.

Representative Josephson was concerned about the possibility of waiting another 20 years. He looked at the amortization period out to pay off the unfunded liability went out to 2041. He asked if the estimate was correct.

Mr. Kershner answered in the affirmative.

Representative Josephson shared that he was currently 56 years old and would be 77 when the unfunded liability was retired. He thought the implication of adding the fiscal note would result in an additional 6 months of payment.

[3:29:34 PM](#)

Mr. Kershner responded that all projections were based on current funding status and expectations about the future, which included assets growing about 7.4 percent per year. He noted that in the current fiscal year assets had returned much greater than 7.4 percent, but the previous two or three years had been unfavorable to the plan. He cautioned that projections could change significantly depending upon the experience to the plan on the asset and liability sides. There could be gains or losses on both the returns and liabilities. He discussed the retirement expectation and explained that if people retired earlier than expected it would create a loss to the plan. Similarly, if the plan population had greater or lesser life expectancy than the standard calculation it could cause a gain or loss to the plan.

Representative Josephson clarified that he was asking if the bill did not add substantially to the 20-year journey of paying down the unfunded liability.

Mr. Kershner answered that based on the current calculations it was correct.

Representative LeBon surmised that it could become a very short journey if the underfunded liability in the existing plan was paid and thought it would help justify a new plan.

HB 55 was HEARD and HELD in committee for further consideration.

Co-Chair Merrick reviewed the schedule for the following morning.

#  
ADJOURNMENT

[3:33:18 PM](#)

The meeting was adjourned at 3:33 p.m.